

**REPORT OF THE AUDIT OF THE  
TODD COUNTY  
SHERIFF'S SETTLEMENT - 2010 TAXES**

**For The Period  
January 1, 2011 Through April 15, 2011**



**ADAM H. EDELEN  
AUDITOR OF PUBLIC ACCOUNTS  
[www.auditor.ky.gov](http://www.auditor.ky.gov)**

**209 ST. CLAIR STREET  
FRANKFORT, KY 40601-1817  
TELEPHONE 502.564.5841  
FACSIMILE 502.564.2912**



**EXECUTIVE SUMMARY**  
**AUDIT EXAMINATION OF THE**  
**TODD COUNTY**  
**SHERIFF'S SETTLEMENT - 2010 TAXES**

**For The Period**  
**January 1, 2011 Through April 15, 2011**

The Auditor of Public Accounts has completed the audit of the Sheriff's Settlement - 2010 Taxes for the Todd County Sheriff for the period January 1, 2011 through April 15, 2011. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

**Financial Condition:**

The Sheriff collected taxes of \$394,527 for the districts for 2010 taxes, retaining commissions of \$14,179 to operate the Sheriff's office. The Sheriff distributed taxes of \$379,979 to the districts for 2010 taxes. Taxes of \$139 are due to the districts from the Sheriff.

**Report Comment:**

2010-01 The Sheriff's Office Has A Lack Of Adequate Segregation Of Duties

**Deposits:**

The Sheriff's deposits were insured and collateralized by bank securities.



## CONTENTS

## PAGE

INDEPENDENT AUDITOR'S REPORT.....	1
SHERIFF'S SETTLEMENT - 2010 TAXES.....	3
NOTES TO FINANCIAL STATEMENT .....	5
REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS .....	9
COMMENT AND RECOMMENDATION .....	13





**ADAM H. EDELEN**  
**AUDITOR OF PUBLIC ACCOUNTS**

To the People of Kentucky

Honorable Steven L. Beshear, Governor  
Lori H. Flanery, Secretary  
Finance and Administration Cabinet  
Honorable Daryl Greenfield, Todd County Judge/Executive  
Honorable Arthur Johnson, Todd County Sheriff  
Members of the Todd County Fiscal Court

Independent Auditor's Report

We have audited the Todd County Sheriff's Settlement - 2010 Taxes for the period January 1, 2011 through April 15, 2011. This tax settlement is the responsibility of the Todd County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement in accordance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the Todd County Sheriff's taxes charged, credited, and paid for the period January 1, 2011 through April 15, 2011, in conformity with the modified cash basis of accounting.

In accordance with Government Auditing Standards, we have also issued our report dated June 22, 2012 on our consideration of the Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



To the People of Kentucky

Honorable Steven L. Beshear, Governor

Lori H. Flanery, Secretary

Finance and Administration Cabinet

Honorable Daryl Greenfield, Todd County Judge/Executive

Honorable Arthur Johnson, Todd County Sheriff

Members of the Todd County Fiscal Court

Based on the results of our audit, we present the accompanying comment and recommendation, included herein, which discusses the following report comment:

2010-01 The Sheriff's Office Has A Lack Of Adequate Segregation Of Duties

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'Adam H. Edelen', with a stylized flourish at the end.

Adam H. Edelen  
Auditor of Public Accounts

June 22, 2012



TODD COUNTY  
ARTHUR JOHNSON, SHERIFF  
SHERIFF'S SETTLEMENT - 2010 TAXES

For The Period January 1, 2011 Through April 15, 2011

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Transferred From Former Sheriff	\$ 48,576	\$ 61,428	\$ 176,244	\$ 64,135
Franchise Taxes	20,511	28,890	68,579	
Penalties	2,331	2,972	8,461	2,995
	<hr/>	<hr/>	<hr/>	<hr/>
Gross Chargeable to Sheriff	71,418	93,290	253,284	67,130
	<hr/>	<hr/>	<hr/>	<hr/>
<u>Credits</u>				
Exonerations	114	131	415	140
Discounts	4	6	13	
Delinquents:				
Real Estate	12,432	15,219	45,270	15,299
Tangible Personal Property	150	219	494	616
Delinquent Oil Taxes	10	12	38	13
	<hr/>	<hr/>	<hr/>	<hr/>
Total Credits	12,710	15,587	46,230	16,068
	<hr/>	<hr/>	<hr/>	<hr/>
Taxes Collected	58,708	77,703	207,054	51,062
Less: Commissions *	2,495	3,302	6,212	2,170
	<hr/>	<hr/>	<hr/>	<hr/>
Taxes Due	56,213	74,401	200,842	48,892
Taxes Paid	56,160	74,340	200,651	48,828
Refunds (Current and Prior Year)	33	38	119	40
	<hr/>	<hr/>	<hr/>	<hr/>
Due Districts as of		**		
Completion of Audit	\$ 20	\$ 23	\$ 72	\$ 24
	<hr/>	<hr/>	<hr/>	<hr/>

\* And \*\* See Next Page.

The accompanying notes are an integral part of this financial statement.

TODD COUNTY  
ARTHUR JOHNSON, SHERIFF  
SHERIFF'S SETTLEMENT - 2010 TAXES  
For The Period January 1, 2011 Through April 15, 2011  
(Continued)

\* Commissions:

4.25% on	\$	187,473
3% on	\$	207,054

\*\* Special Taxing Districts:

Library District	\$	8
Health District		7
Extension District		<u>8</u>

Due Districts	\$	<u><u>23</u></u>
---------------	----	------------------

TODD COUNTY  
NOTES TO FINANCIAL STATEMENT

April 15, 2011

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The Todd County Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

TODD COUNTY  
NOTES TO FINANCIAL STATEMENT  
April 15, 2011  
(Continued)

Note 2. Deposits (Continued)

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the Sheriff's deposits may not be returned. The Todd County Sheriff does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of April 15, 2011, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

Note 3. Tax Collection Period

A. Property Taxes

The real and personal property tax assessments were levied as of January 1, 2010. Property taxes were billed to finance governmental services for the year ended June 30, 2011. Liens are effective when the tax bills become delinquent. Tax bills unpaid as of December 31, 2010 were transferred from the former Sheriff. The collection period for these assessments was January 3, 2011 through April 15, 2011.

B. Oil Taxes

The oil tax assessments were levied as of January 1, 2010. Property taxes are billed to finance governmental services. Liens are effective when the tax bills become delinquent. Tax bills unpaid as of December 31, 2010 were transferred from the former Sheriff. The collection period for these assessments was January 3, 2011 through May 15, 2011.

Note 4. Interest Income

The Todd County Sheriff earned \$201 as interest income on 2010 taxes. The Sheriff distributed the appropriate amount to the school district as required by statute, and the remainder was used to operate the Sheriff's office.

Note 5. Sheriff's 10% Add-On Fee

The Todd County Sheriff collected \$12,279 of 10% add-on fees allowed by KRS 134.119(7). This amount was used to operate the Sheriff's office.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND  
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL  
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS





**ADAM H. EDELEN**  
**AUDITOR OF PUBLIC ACCOUNTS**

The Honorable Daryl Greenfield, Todd County Judge/Executive  
Honorable Arthur Johnson, Todd County Sheriff  
Members of the Todd County Fiscal Court

**Report On Internal Control Over Financial Reporting And On  
Compliance And Other Matters Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards**

We have audited the Todd County Sheriff's Settlement - 2010 Taxes for the period January 1, 2011 through April 15, 2011, and have issued our report thereon dated June 22, 2012. The Sheriff prepares his financial statement in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

Management of the Todd County Sheriff's office is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Sheriff's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the Sheriff's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Sheriff's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying comment and recommendation, we identified a certain deficiency in internal control over financial reporting that we consider to be a material weakness.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statement will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying comment and recommendation as item 2010-01 to be a material weakness.



Report On Internal Control Over Financial Reporting And On  
Compliance And Other Matters Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards  
(Continued)

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Todd County Sheriff's Settlement - 2010 Taxes for the period January 1, 2011 through April 15, 2011, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

This report is intended solely for the information and use of management, the Todd County Fiscal Court, and the Department for Local Government and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in dark ink, appearing to read 'Adam H. Edelen', with a long horizontal flourish extending to the right.

Adam H. Edelen  
Auditor of Public Accounts

June 22, 2012



COMMENT AND RECOMMENDATION



TODD COUNTY  
ARTHUR JOHNSON, SHERIFF  
COMMENT AND RECOMMENDATION

For The Period January 1, 2011 Through April 15, 2011

INTERNAL CONTROL - MATERIAL WEAKNESS:

2010-01 The Sheriff's Office Has A Lack Of Adequate Segregation Of Duties

During our review of internal controls, we noted the Sheriff has a lack of segregation of duties. The Sheriff's bookkeeper prepares tax reports, distributes tax payments, reconciles checking accounts, collects money, prepares receipts ledgers, prepares disbursements ledgers, prepares deposits, and makes deposits. Documented compensating controls were not in place to offset this control deficiency. The Sheriff should implement the compensating controls noted below to offset this internal control weakness:

- Bank reconciliations should be checked and approved by someone other than the preparer of the reconciliation. This should be documented on the bank reconciliation.
- Receipts and disbursements ledgers should be reviewed and approved by someone other than the preparer of the ledgers. This should be documented on the ledgers.
- Backs of checks should be provided by the bank and reviewed to ensure checks have proper endorsement.

*Sheriff's Response: No Response.*

